

Dear Ms. O'Vuka

Pursuant to our conversation yesterday, enclosed please find a copy of the audited 1990 balance sheet (including the relevant portion of the footnotes) and a preliminary draft of the 1991 balance sheet (for which draft footnotes are not yet available) for the proposed acquired company.

In the 1990 balance sheet, you will see that the sum of the "Cash and temporary investments, restricted" and the restricted amount set forth in "Accounts receivable, including \$616,821 restricted in 1990 for premiums payable", is \$13,662,369 and the corresponding liability, "Premiums payable to insurance companies", is the same amount. Note 4 to the 1990 financial statements explains that the restricted temporary investments are maintained in fiduciary accounts. The matched book is even clearer in the 1991 balance sheet. As you can see, at December 31, 1991, the "Cash and temporary investments, restricted" is \$11,947,644, and the corresponding liability, "Premiums payable to insurance companies", is also \$11,947,644.

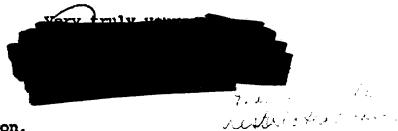
I thought it might be helpful to set forth an excerpt from the agreement between the insurance company and the proposed acquired company which describes the mechanism

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for the handling of fiduciary funds. In the following excerpt, "Administrator" refers to the acquired company and "Company" refers to the insurance company:

"All premiums, return premiums, loss payments, reinsurance proceeds and other funds relating to the Business Covered By This Agreement received by Administrator are the property of Company and shall be held by Administrator as trustee for the Company until delivered to Company, the insured, the claimant or the reinsurers as applicable. The trust relationship and Company's ownership of unpaid premiums which have not been collected by Administrator shall not be modified, affected or waived by the keeping of an account on Company's or Administrator's books as a creditor and debtor account, the payment of balances at stated periods, the retention of administrative fees by Administrator or the acceptance of net premiums from agents and brokers. Administrator will maintain Company's monies in one or more separate bank accounts and will not mingle such monies with its own funds. Administrator may withdraw such monies to pay reinsurance premiums, return premiums and losses or to pay Administrator its fees and income on such monies."

If you have any questions with respect to the enclosed financial statements or otherwise, please do not hesitate to call me.



Nancy O'Vuka, Esq., Federal Trade Commission,

Sixth Street and Pennsylvania Avenue, N.W., Alexandre

Room 301, Washington, D.C. 20580

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BALANCE SHEETS

AS OF DECEMBER 31, 1990 AND 1989

ASSETS

	1990	1989
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,952,136	\$1,397,963
Cash and temporary investments, restricted	13,045,548	5,414,979
Insurance claim receivable (Note 3)	4,954,188	
Accounts receivable, including \$616,821		
restricted in 1990 for premiums payable	636,884	419,484
Prepaid insurance premium (Note 3)	1.044.399	**
Due from related parties	683,918	268,463
Other current assets	166,209	61,487
Total current assets	22,483,282	7,562,376
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FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS	839,272	811,174
Less- Accumulated depreciation and amortization	(478,589)	(387,829)
	360,683	423,345
OTHER ASSETS	16,796	26,425
Water Assets	\$22,860,761	\$8,012,146
Total assets	#==###################################	MESSESSES 401A161748

The accompanying notes are an integral part of these balance sheets.

BALANCE SHEETS

AS OF DECEMBER 31, 1990 AND 1989

LIABILITIES AND SHAREHOLDERS' EQUITY

•	1990	1989
CURRENT LIABILITIES:		
Current portion of notes payable	\$ 3,046,455	\$ A1.720
	1,423,621	573,236
Stock repurchase obligation	108,306	
Premiums payable to insurance companies	13,662,369	5,414,979
•		*****
Total current liabilities	18,240,751	6,069,935
LONG-TERM LIABILITIES:		
Accrued pension liability, net of current portion	32,413	49,022
Deferred cent	280,954	•
Notes payable, net of current portion	303.043	
Stock repurchase obligation, net of current portion		######################################
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Total long-term liabilities	724,716	586,216
COMMITMENTS AND CONTINGENCIES (Note 6)	. *	
SHAREHOLDERS' EQUITY:		
Common stock, par value \$0.01 per share;		
authorized 100,000 shares; 19,000 and 25,500		
issued and outstanding at December 31, 1990 and		
1989, respectively	190	255
Additional paid-in capital	39,999	
Retained earnings	3,855,105	
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Total shareholders' equity	3,895,294	1,355,995
		44.44.00
Total liabilities and shareholders' equity	\$22,860,761	
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The accompanying notes are an integral part of these balance sheets.

furniture, Equipment and Leasehold Improvements

furniture and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, generally five to ten years. Leasehold improvements are amortised over the useful lives of the assets or the term of the lease, whichever is shorter.

Income Taxes

Effective January 1, 1986, the Company elected to be taxed as an '8' corporation. As a result, taxable earnings of the Company, subject to certain restrictions and exceptions, will be taxed directly to the shareholders.

The Company reports its income and expenses for income tax purposes on the cash basis of accounting.

Prior Year Reclassifications

Certain prior year reclassifications have been made in the accompanying financial statements to conform with the current year presentation.

3. PROFIT COMMISSION INSURANCE:

Effective February 15, 1990, the Company entered into an insurance policy to insure the recovery of profit commissions against further losses for the profit commission cycles ended December 31, 1990 and 1989. As of December 31, 1990, the Company has recognized revenue of approximately \$5.0 million under the policy and anticipates recognizing an additional \$2.6 million over the term of the policy, which ends December 31, 1992. The \$3.0 million premium for the policy is being amortized ratably in relation to recoveries under the policy.

4. RESTRICTED TEMPORARY INVESTMENTS:

The Company maintains fiduciary accounts for premiums due to insurance companies. The Company retains the interest earned on these funds but is restricted from using the principal balance. Temporary investments are carried at cost, which approximates market value. These investments consist primarily of commercial paper at December 31, 1990, and municipal securities at December 31, 1989.

5. RELATED-PARTY TRANSACTIONS:

The Company holds notes receivable from the principal shareholder and chairman of the Company totaling \$535,000 and \$120,000 at December 31, 1990 and 1989, respectively. These notes are payable on demand and accrue interest at 8.5 percent per annum (10 percent in 1989). Accrued interest receivable on the notes of approximately \$76,000 and \$48,000 as of December 31, 1990 and 1989, respectively, is included in due from related parties in the accompanying balance sheets.

DRAFT BALANCE SHEET As of December 31, 1991

\$800,636 663,074 118,058 11,947,644 13,529,410		77 × 78 × 78 × 78 × 78 × 78 × 78 × 78 ×	081 99,99 8,659,55,5	3,679,740
CURRENT LIABILITIES: Content portion of notes payable Content portion of notes payable Accounts payable and accrued expenses Stock repurchase obligation Stock repurchase obligation Fremiums payable to insurance companies Total current liabilities	LONG-TERM LIABILITIES: Accrued persion Rebisty, net of current perfor Deferred rent Notes payable, net of current portion Stock repurchase obligation, rist of current portion	Total long-term flabilities COMMITMENTS AND CONTINGENCIES	SHAREHOLDERS' EQUITY: Common stock, per value \$0.01 per share; Common stock, per value \$0.01 per share; authorized 100,000 shares: 19,000 is:ued and outstanding at December 31, 1991 and 1990, respectively Additional pald-in-capital Retained earnings	Total shareholders' equity Total HabilRies and shareholders' equity
\$2,251,181 11,947,644 2,845,812 0 667,048	0 63,750 17,575,435	\$ 775,209 (469,637) 305,572	16,796	\$17,897,803
CURRENT ASSETS: Cash and cash equivalents Cash and temporary investments, restricted Insurance claim receivable Accounts recoelvable, including \$0 restricted in 1991 for premiums payable	Prepaid insurance premium Due from relatied parties Other current assets Total current assets	FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS Less - Accumulated depreciation and emorization	OTHER ASSETS	Total assets